PEAT MARWICK

# REPORT TO ALBERTA MINISTER OF AGRICULTURE

Hog Industry Negotiations
May 6, 1985

TABLE OF CONTENTS


Executive Summary Page 1

Detailed Report

A. Terms of Reference Page 3

B. Progress to Date Page 4

C. Observations Page 5

D. Recommendations Page 6

Appendix A

Appendix B

Appendix C

Figure 1

Figure 2

## EXECUTIVE SUMMARY

The negotiations we were asked to participate in have resulted in the satisfactory resolution of many issues which had previously been areas of conflict. In our view the discussions also resulted in the three parties (Gainers, Fletchers and the Board) gaining a better understanding of the issues and the position of the other participants.

Our terms of reference set out six principles which were to form the outline of a hog selling system. Agreement was reached on all principles except for the actual price/volume formula. However, Gainers' position throughout the negotiation process was that they would give their final agreement to any proposal only once the Board had disposed of Fletchers in a manner agreeable to Gainers.

At the termination of negotiations, the positions taken by the participants were as follows:

### Fletchers

At the final meeting, Fletchers made the following offer:

A. Price formula 60% Manitoba, plus 40% Ontario.

B. Initial contract volume equal to 100% of the prior eight week average

C. Residual hogs be shared proportionately according to contract volumes.

D. Residual price be US net back plus $1.50 per cwt.

E. Britco be made an FOB point and be considered an Alberta packer for the purposes of the agreement.

F. Alberta packers to have first opportunity on residual hogs.

Subsequent to the final meeting, Fletchers withdrew their offer and suggested that the present selling system remain in place.

Gainers

At the final meeting Gainers made the following offer:

A. Price formula to be 20% Manitoba plus 80% Ontario less $2.50 per cwt.

B. Initial contract volume to be 90% of prior eight week average purchases with such volume to remain constant throughout the term of the contract.

C. Residual hogs to be shared proportionately according to initial contract volumes.

D. Residual price equal to contract price.

E. Britco price equal to Alberta contract price plus freight.

F. If possible, some consideration to be given to the Alberta wholesale value of a "composite hog" as it relates to the Ontario wholesale value.

Subsequent to the final meeting, Gainers rejected the Fletchers' offer and stated they would propose a revised offer no later than May 10, 1985.

Board

At the final meeting, the Board representatives tentatively accepted the Fletchers offer which was subsequently withdrawn. While the Board had not, at the close of negotiation submitted an alternative offer, their earlier position had been the proposed agreement (Appendix A) with a price formula of 40% Manitoba, 40% Ontario plus 20% U.S.

The parties to these negotiations have had an opportunity to come to agreement on a price/volume contract but have not been able to do so. We therefore recommend that the Minister discontinue any involvement by himself or an appointed intermediary in price/volume contract discussions at this time.

## DETAILED REPORT

### A. Terms of Reference

On March 26, 1985, we received instructions from the Minister of Agriculture to assist in negotiating an agreement between the Alberta Pork Producer's Marketing Board, Gainers and Fletchers on a formula pricing and volume arrangement under which hogs would be sold in Alberta. The following six principles were to be incorporated into a new selling arrangement:

1. Each Alberta packer agrees to contract hogs from the Alberta Pork Producer's Marketing Board priced on a blend of other relevant market prices, eg., Omaha, Winnipeg, and Toronto.

2. Except in extenuating circumstances, penalties will be imposed on packers when they purchase less than the minimum stated in their contract.

3. Out of province and foreign packers who purchase hogs for slaughter outside of Alberta will be allowed to purchase, based on the established formula, if they choose to participate when formula selling is implemented. Particular consideration must be given to the freight issue.

4. Residual hogs (those remaining after allocation through the formula process) will be bid on by all buyers (including out of province and foreign) through a system that allows competitive access to all residual hogs by all buyers.

5. Full information disclosure on both residual and allocated hogs will be available on a regular and timely basis.

6. The price/allocation formula system will be flexible enough to allow for new or expanded slaughtering and processing industry development.

B. PROGRESS TO DATE

While we are at this point unable to advise that we have been able to negotiate an agreement among the parties we were able to obtain agreement on many of the issues. The proposed agreement, as negotiated prior to April 26 and after three meetings with all participants, is attached as Appendix A. The price/volume contract formula remains unresolved.

Over the period of negotiations, we had a total of four meetings with all parties in attendance. In addition to the four joint meetings, we had numerous private meetings with various participants.

While much of the agreement has little meaning or usefulness in light of recent events, we believe its existence does demonstrate that progress was made throughout the negotiations.

On April 24, we received a revised proposal from Gainers. It is outlined in Appendix B. We computed the impact of the proposal on all parties and forwarded the results to each party for their consideration.

On the evening of April 25, we received a revised proposal from Fletchers. Fletchers' proposal is attached as Appendix C. We computed the impact of the proposal on all parties and had the results available for all parties at our last joint meeting on the morning of April 26.

At our final joint meeting on April 26, both Gainers and Fletchers outlined their proposals. The Board, after considering the two proposals, tentatively accepted the Fletchers' proposal over the Gainers' proposal on the basis that it would have had a more positive impact on the pool price.

Gainers was unwilling to accept the Fletchers' proposal at that time but assured us that they would have a response to the offer by Wednesday, May 1.

Gainers letter to us of May 1 rejected the Fletchers' proposal.

Gainers has subsequently informed us by telephone that they will be presenting a comprehensive revised proposal by May 10, 1985. It is our understanding that their revised proposal will be based on their original proposal with some adjustment for the historical differential between the Ontario and Alberta wholesale prices for a "composite hog".

Since we received Gainers' reaction to the Fletchers' proposal, the Board has attempted unsuccessfully to convince Fletchers to adjust the proposal in such a way as to address several of Gainers' objections. The Board suggested the following:

1. Initial contract volumes for Fletchers and Gainers be identical.

2. Britco be considered as part of Fletchers, Red Deer for contract purposes and be delivered hogs at the Alberta price (either contract or residual) plus freight and shrink.

Fletchers has rejected the Board suggestions on the basis that accepting them would put Fletchers at a severe competitive disadvantage relative to Gainers. Fletchers subsequently withdrew their offer of Friday, April 26.

## C. OBSERVATIONS

1. We believe all parties entered the negotiations hoping to resolve the issue at hand.

2. Gainers is concerned about the Board's ownership of Fletchers. They made it clear to all parties at the outset of discussions that any agreement Gainers might sign must contain the proviso that the Board divest itself of Fletchers in a manner which would be agreeable to Gainers.

3. It was our understanding at the outset of the negotiations that all parties were prepared for an increase in the hog price. However, it became clear through the negotiations that all participants did not share our understanding.

## D. RECOMMENDATIONS

We see the Minister as having several options:

1. An intermediary could remain in place and continue to attempt to mediate a settlement.

2. The Minister could impose a revised selling system.

3. The Minister could suspend any direct involvement and let the market forces move the concerned parties towards a resolution of the problem.

### Option No. 1

While there may be good reason in the future to utilize the services of an intermediary, we feel it would not be advisable at the present time. Each of the concerned parties has taken a definite position on the price/volume issue and it appears to us that there is very little chance of the positions changing in the near future.

Notwithstanding the above, there is of course the possibility that Gainers' revised proposal (to be submitted by May 10, 1985) may be acceptable to the other two parties.

### Option No. 2

We do not believe that it would be advisable for the Minister (or Marketing Council) to impose a price/volume contract arrangement on the industry at this time.

It was our understanding that there had been agreement among all parties that the negotiations would result in an increase in the producer pool price. This increase would be supported in part by an increase in the Alberta packer price and in part by an increase in the number of hogs slaughtered in Alberta. Not all parties acknowledged such agreement.

Given present market conditions, it was not possible to devise a scheme which would have had a positive impact on the producer pool price without forcing Alberta packers to accept larger volumes or without significantly raising the Alberta packer contract price. The imposition of any such scheme may not be acceptable to the parties.

Option No. 3

We believe it would be advisable and hereby recommend that the Minister discontinue any involvement by himself or an intermediary in the price/volume contract discussions at this time.

We saw the negotiations as having three major objectives:

1. To increase the producer pool price
2. To increase the Alberta hog slaughter
3. By resolving the above two, put an end to the public debate of recent months.

Several things have happened since we became involved in the discussions:

1. The United States has imposed a countervailing duty.

2. Both Alberta plants have increased their kill in the past four weeks with the result that fewer hogs have been sold into the export market.

3. The Alberta Pool price has increased because of the increased Alberta kill.

4. Fletchers has announced plans to increase its kill, which will likely result in fewer hogs being exported. This should lead to increased competition for the hogs and thereby a higher pool price.

Due to these changes, objectives 1 and 2 above have been largely achieved. By the same token, these changes may well contribute to an extension and possibly an increase in the public debate between the various parties. Given Gainers' publicly stated concern regarding the Fletchers' ownership issue, it seems unlikely that the public debate would have ceased, even if the parties had been able to reach agreement on a price/volume formula.

Our mandate from the Minister was specific. We were to deal only with the price/volume contract issue. The Minister, by involving Peat Marwick in the negotiation has given all the parties an opportunity to come to agreement on that issue. At this time, they have chosen not to do so. We therefore reaffirm our recommendation that the Minister discontinue any involvement by himself or an intermediary in the price/volume discussions <u>at this time</u>.

* * * * *

We would be pleased to discuss this report with you or to provide such other information as you require.

Yours very truly,

PEAT MARWICK & PARTNERS

W. P. Daye

APPENDIX A

## PROPOSED AGREEMENT

### Amended - April 11, 1985

Principle 1. Each Alberta packer agrees to contract hogs from the Alberta Pork Producers Marketing Board priced on a blend of other relevant market prices, e.g. Omaha, Winnipeg and Toronto.

1. The formula price will reflect some mix of the price in Toronto, Winnipeg and the U.S. Seven State price. (Omaha). Exact definition of the formula was unresolved.

2. The price formula will be adjusted each day on the basis of previous day's quoted price in the various markets used in the formula. In the case of the quote being a range, the midpoint in the range will be used in the formula.

3. Contract sales to Alberta packers will continue to be on an FOB plant basis.

4. The terms and conditions of the contracts between the Board and each contract buyer will be identical. Changes to the terms and conditions of the contracts will take place only in the case where there is agreement between all parties (the Board and all packers) to all contracts.

5. Except in the case of agreement between the Board and the packer, the number of contract hogs delivered daily will be evenly distributed throughout the week. With respect to contract volumes, allowable tolerances without attracting damages or penalties or price adjustments will be as follows:

A. The Board will be allowed to deliver:

1. On any given day, plus or minus 10% of requested contract volumes.

2. On a weekly basis, plus or minus 5% of requested contract volumes.

B. The packer will be allowed to request:

1. On a daily basis, plus or minus 15% of the weekly contract volume (adjusted for holidays) divided by the number of working days in the week.

2. On a weekly basis, a minimum of 90% of full weekly contract volume.

6. Initial weekly contract volume will be 90% of the average weekly purchase over the eight weeks (adjusted for holidays) prior to the inception of the program.

7. After week one, the contract volume shall be defined to be one - eighth of the total number of contract hogs requested plus residual hogs purchased over the immediately preceeding eight weeks (adjusted for holidays). The calculation of weekly contract volumes will exclude delivery tolerances.

8. Omaha price will be converted by dividing the quoted Omaha market by .785 and multiplying by the prevailing U.S./Canadian exchange rate (noon bank rate).

9. The term of the contract will be six months with a review to begin in four months from the commencement of the contractual selling

arrangement. Required modifications in the contract will be made at the end of six months at which time, assuming the modifications to the contract are agreed upon by all parties, the contract will be renewed. In the event that there is a lack of agreement on the modifications to be made to the contract, the contract will be terminated.

10. If by law modifications to the Plan or regulations are required in order to implement this agreement, these modifications will be sought.

11. It is understood that Gainers' positions is that, as a matter of economics, the law of supply and demand would hold that the internal Alberta price at a time of Alberta hog surpluses should approximate the netback value and it is to be further understood that Gainers does not, by the negotiation hereof, waive any claims for damages it may have against the Board for ultra vires and/or anticompetitive activities of the Board including, without limiting the generality of the foregoing, any claim Gainers may have for damages arising out of the Board policy of October 1st.

Principle 2. Except in extenuating circumstances, penalties be imposed on packers when they purchase less than the minimum stated in their contract.

1. Each plant will be allowed to accept each week a minimum of 90% of their contract volume (adjusted for holidays) as defined above without being assessed damages. Failure to take 100% of the contract volume in any week will not preclude the plant from bidding on residual hogs in such week, but it will result in a price adjustment on a portion of the residual hogs in order to bring contract volumes up to 100%. (Refer to Principle 4.7)

2. The following will be included as extenuating circumstances:

a. Strick/lockout
b. Fire
c. Force majeure
d. Plant closure due to breakdown in excess of one day
e. Permanent closure of the plant.

3. In the case where the hogs which were refused by the packer are sold into another market at a price which is equal to or greater than the contract price, then no damages have been incurred and therefore none will be assessed.

   Whether or not damages are incurred in the case of refused delivery would be determined as soon as the information on out of province sales was available. Penalty would be the actual amount of the damages incurred. Actual damages incurred will be verified by an independent auditor agreed to by the parties involved and such auditor shall report back to all such parties.

4. An appeal procedure will be defined whereby any dispute regarding what constitutes damages or the actual damages incurred will be resolved. An arbitrator, mutually agreed upon by both parties will be appointed to settle the dispute. Failing agreement of the parties involved, an arbitrator will be appointed by a Judge of the Court of Queens Bench.

5. An appeal procedure will be defined whereby any dispute regarding what constitutes extenuating circumstances will be resolved. An arbitrator, mutually agreed upon by both parties will be appointed to settle the dispute. Failing agreement of the parties involved, an arbitrator will be appointed by a Judge of the Court of Queens Bench.

6. Except for extenuating circumstances, in the event that the Board fails to deliver hogs to a plant, a calculation of the damages to the plant will be made, determined on a per hog basis, and the amount of such loss suffered will be paid by the Board to the plant. Actual damages

incurred will be verified by an independent auditor agreed to by the parties involved and such auditor shall report back to all such parties.

7. In those situations where an auditor or arbitrator is required the cost of the auditor or arbitrator will be shared equally between the party claiming damages and the party from whom damages are being claimed.

8. In the event of a shortage of hogs on a particular day, available hogs will be allocated on a pro rata basis (with an allowable variance of plus or minus 200 hogs), based on current contract volumes with consideration given to deliveries up to that point in time during the week.

Principle 3. Out of province and foreign packers who purchase hogs for slaughter outside of Alberta be allowed to purchase basis the established formula if they chose to participate when formula selling is implemented. Particular emphasis must be given as to how the freight issue is considered.

1. With respect to present out of province and foreign buyers of Alberta hogs, they will be allowed to participate in the contract arrangement at such time as it is put into place. They will not be allowed to sign a contract with the Board mid-way through the term of the contract.

2. With respect to contracts with out of province and foreign buyers the buyers will be responsible for all costs from the nearest F.O.B. point. It would be the responsibility of the Board to put the contract hogs for out of province contract buyers in position at the nearest F.O.B. point. The producer will be responsible for all costs to the F.O.B. point.

Principle 4. Residual hogs (those remaining after allocation through the formula process) be bid on by all buyers (including out of province and

foreign) through a system that allows competitive access to all residual hogs by all buyers.

1. Sales of residual hogs will be undertaken each day. This sale may be conducted in advance.

2. With respect to the bids submitted by Alberta packers, they will be submitted on an F.O.B. plant basis.

3. Bids from out of province buyers and bids from foreign buyers via the Alberta Hog Trading Company will be accepted on the basis of delivered to the nearest F.O.B. point. The out of province or foreign buyer will be responsible for all costs associated with moving the hogs from the nearest F.O.B. point to this plant.

4. Bids from Alberta, out of province and foreign buyers will be adjusted for freight to the F.O.B. point before they are compared. In the event a superior bid on a gross basis is subordinated on a freight adjusted basis, the bidder whose bid was subordinated via freight adjustment will have an opportunity to make up the freight difference and take the hogs.

5. The present F.O.B. points will not be changed without agreement of all parties to this agreement.

6. Alberta packers will have an opportunity to re-bid in the event that they are out-bid on a net return to the producer basis by an out of province or foreign packer (The Alberta Hog Trading Company will be deemed to be an out of province buyer for purposes hereof). In the event that Alberta packers submit a tied bid, they will all have an opportunity to re-bid. In order to avail themselves of the re-bid opportunity, the buyer must have participated in the residual market at the outset.

7. Delivery scheduling for the following week will be attempted on the last working day of each week. Buyers will be allowed to take part in the residual market at any point during the week. In the event that total weekly deliveries of contract hogs is less than 100% of the weekly contract volume, then those residual hogs as would be necessary to bring the contract volume up to 100% for the week would be subject to price adjustment. Such price adjustment will be undertaken in reverse order of purchase during the week. In the event that there are short deliveries at the end of the week and the Board is unable to deliver sufficient hogs to fill contract volumes (even though those contract volumes were requested), there will be no price adjustment on the residual hogs which were purchased earlier in the week. The residual hogs would then be sold to the highest bidder each day on the same basis as are all the hogs at the present time, except for the proviso as outlined in 6 above.

8. All Alberta hogs will be sold pursuant to Principle 1 or Principle 4.

9. Provision in the contract for pilot hogs was left unresolved to the time being.

10. No buyer is to receive any information on other competitive bids on residual hogs prior to his making his competitive bids except as may be necessary to facilitate the rebid procedure outlined in 6 above.

Principle 5. Full information disclosure on both residual and allocated hogs will be available on a regular and timely basis.

1. In addition to currently provided information, the following information will be made available to all Alberta packers on the basis outlined below:

A. The Board will be required to supply to all Alberta buyers with the following information immediately upon the commencement of contract selling:

1. Copies of all fixed contracts which the Board has with any and all present buyers of contract hogs and as soon as the contract is signed with any new contract buyers (only applicable in the case of a new slaughtering which opens in the Province during the term of the contract).

2. Details as to the factors and inputs used each day to calculate the contract price amount.

B. As soon as is possible, but no longer than three weeks after the sale dates, the Board will be required to distribute the following sales information to all Alberta buyers:

1. Number of hogs sold to each Alberta buyer under contract and the number of residual hogs sold to each Alberta buyer on the bid system daily.

2. For all residual hogs sold to each Alberta packer, the price paid.

3. In the case of out of province and export sales, the Board will report to all Alberta buyers the results of each load on a net basis (identifying the disbursements), comparing it to that days bid by the out of province buyer or by the Alberta Hog Trading Company (in the case of foreign sales). In the case where the net realized on the out of province or foreign load was less than the out of province or foreign bid, the Board will furnish an explanation to all Alberta buyers. (Eg. shrink was more than allowed for, death loss was greater than anticipated). The report to be verified by the auditing firm on a sampling basis.

4. The F.O.B. point and any information relating to the comparison of costs on all out of province and export sales will be identified in the sales report.

5. Alberta packers will disclose to the Board all information regarding prices and volumes on all out of province purchases of hogs.

Principle 6. The price/allocation formula system will be flexible enough to allow for new or expanded slaughtering and processing industry development.

1. For a new plant in Alberta, the initial base contract amount would be determined to be 75% of the new plants estimated slaughter capacity. Given possible start up problems, the contract volume would be reviewed at the end of twelve weeks, and a revised base volume would be established at 90% of the average weekly volume over the preceeding eight weeks. From that point forward, the contract volume would be calculated in exactly the same way as it is for any plant presently buying on the contract basis.

2. For an existing Alberta plant which wishes to expand its slaughter capacity, the contract volume will be automatically increased as increased weekly volume results in an adjustment of the eight week rolling average.

3. 1 and 2 above are agreed to with the proviso that the contract volumes of those plants presently purchasing contract hogs is not eroded.

APPENDIX B

## Gainers' Proposal

(Refer Figure 1)

Gainers' price/volume proposal was based on the following elements:

1. Over the past 15 years (1970 to 1984), the Ontario price has been an average of $3.08 per cwt. above Alberta.

2. Over the past 15 years (1970 to 1984), the Manitoba price has been an average of $.04 per cwt. above Alberta.

3. Weighing the Ontario - Alberta differential by 80% and the Manitoba - Alberta differential by 20% gives a composite differential of $2.50 per cwt.

The daily formula would be calculated by subtracting $2.50 from the sum of 20% of the Manitoba price and 80% of the Ontario price.

It was proposed that the proposed agreement (Appendix A) would be amended to include the following:

1. All Alberta plants would agree to a minimum weekly volume of 90% of their previous eight week average at the formula price.

2. Any hogs purchased by Alberta plants over their minimum commitment would be purchased at the formula price.

3. Those hogs purchased in excess of the minimum commitment would not be added to the contract volume.

4. Residual hogs purchased by each plant would be in the same proportion as had been their historical purchase. In the event that one plant did not purchase their proportional residual volume, those hogs would be available to the other Alberta plant first.

5. The Board would sell all hogs which were surplus to the Alberta plants' requirements into foreign and out of province markets.

6. Britco would be sold hogs at the Alberta contract price plus freight.

7. If possible, there would be some consideration of the wholesale value of a "composite hog" in the formula to the extent that the wholesale price of a composite hog in Edmonton varies from the wholesale price of a composite hog in Ontario.

Accounting for the actual volumes and prices for the week April 14 to April 20, the Gainers proposal (20% Manitoba plus 80% Ontario less 2.50) would have had effect outlined in Figure 1.

Assumptions:

a) Index 100 hog
b) Carcass weight 172 lbs.
c) Net back on U.S. sales = $15.00/cwt. under seven state price less duty.

The average gross return to the Board would have been $1.16 per hog less than what it was. The average cost to both Alberta Packers over the week would have been $2.49 per hog less than what it actually was. The average cost to Britco over the same week would have been $8.51 per hog more than it actually was.

Any increase in the numbered killed by Alberta packers would have resulted in higher returns for the Board and exactly the same costs per hog for the packers.

APPENDIX C

## Fletcher's Proposal

(Refer Figure 2)

1. The contract would be available to Gainers, Fletchers, and Britco.

2. The term would be six months.

3. The base contract volume for each plant would be 100% of the average weekly purchase during the eight-week period ended April 19, 1985. The base volume would be fixed for the term of the contract; ie., six months. Those volumes would have been: Gainers - 1,650 per week; Fletchers - 13,900 per week; Britco - 700 per week.

4. Britco would be added as an F.O.B. point.

5. The formula price applicable to the base volume would be 60% Manitoba plus 40% Ontario.

6. All residual hogs would be made available to all contracting packers in direct proportion to contract quantities at the commencement of the contract. In the event that one or more of the contracting packers should choose not to purchase the residual hogs, those hogs would be offered first to any contracting packer who expressed an interest in purchasing the remaining residual hogs. If, after the contracting packers had purchased those residual hogs which they desired, there were still hogs to dispose of, the Pork Producers Marketing Board would sell the remainder to whomever they chose and on whatever terms they chose. The price for the residual hogs sold to contracting packers would be the net back (established by formula) plus $1.50 per cwt.

Accounting for the actual volumes and prices for the week April 15 to April April 19, the effect of the Fletchers' proposal on the various parties would have been as follows:

1. Gainers' cost would have been $.88 per hog higher, Fletchers' cost would have been $1.47 per hog higher, Britco's cost would have been $1.91 higher. The Board would have received an additional $1.10 per hog under the scheme.

2. If the Alberta plants' purchases had been higher, their cost per hog would have been lowered and the Boards' pool price would have increased.

[illegible] PROPOSAL FOR WEEK OF APR 15 TO APR 19 1985 OF EIGHT WEEK VOLUME ON CONTRACT, RESIDUALS AT CONTRACT PRICE)

| CONTRACT FORMULA | | EFFECT ON THE PLANTS |
|---|---|---|
| [illegible] | 20.00% | [illegible] FLETCHERS BRITCO EXPORT |
| [illegible] | 80.00% | |
| USA | 0.00% | APRIL 15 - APRIL 19 |
| FOLEY504 | 2.50 | |

| MARKETS | | | | | |
|---|---|---|---|---|---|
| | ALBERTA PACKER | 58.93 | 58.93 | 58.93 | 58.93 |
| | [illegible] | 59.02 | 59.02 | 59.02 | 59.02 |
| | [illegible] | 60.02 | 60.02 | 60.02 | 60.02 |
| | USA | 70.47 | 70.47 | 70.47 | 70.47 |

ACTUAL PURCHASES WEEK OF APRIL 15 - 19,1985

| | | | | | |
|---|---|---|---|---|---|
| TOTAL BUY (NUMBER OF HOGS) | | 17202 | 14100 | 4254 | 4533 |
| CONTRACT BUY (8 WEEK AVERAGE) | | 16250 | 13900 | 3500 | |
| AVERAGE WEIGHT PER HOG | 172 | 172 | 172 | 172 | 172 |
| ALTA PACKER PRICE | | 58.93 | 58.93 | 57.33 | 58.17 |
| TOTAL COST | | 1743588 | 1429170 | 419477 | 391132 |
| AVERAGE COST/HUNDRED 100 KGS | | 101.36 | 101.36 | 98.61 | 86.29 |

PROPOSED CONTRACT PURCHASE

| CONTRACT HOGS | | | | | |
|---|---|---|---|---|---|
| CONTRACT BUY | 90.00% | 14625 | 12510 | 3150 | |
| ALBERTA CONTRACT PRICE | | 57.48 | 57.48 | 62.28 | |
| PLANT COST - CONTRACT HOGS | | 1445999 | 1236809 | 337433 | |
| AVERAGE COST/HUNDRED 100 KGS | | 98.87 | 98.87 | 107.12 | |
| RESIDUAL HOGS | | | | | |
| NUMBER REQUIRED TO FILL PLANT VOLUME | | 2577 | 1990 | 1104 | |
| DUTY | | 5.30 | 5.30 | 5.30 | 5.30 |
| ALBERTA RESIDUAL PRICE = CONTRACT PRICE | | 57.48 | 57.48 | 62.28 | |
| ALBERTA PLANT COST | | 254777 | 157196 | 118262 | |
| US SALES | | | | | 4533 |
| US NET BACK PRICE | | | | | 58.17 |
| US SALES REVENUE | | | | | 391132 |
| AVERAGE COST/HUNDRED 100 KGS | | 98.87 | 98.87 | 107.12 | 86.29 |
| TOTAL COST - CONTRACT PLUS RESIDUAL | | 1700686 | 1394005 | 455695 | 391132 |
| AVERAGE COST - ALL HOGS | | 98.87 | 98.87 | 107.12 | 86.29 |
| AVERAGE COST SAVINGS/HOG | | | | | |
| ACTUAL - (CONTRACT+RESIDUAL) | | 2.99 | 2.99 | -0.58 | |

ASSUME THE PURCHASE OF ADDITIONAL RESIDUAL HOGS

| AVERAGE COST SAVINGS/HOG | 1000 | 2.99 | 2.99 | -0.58 |
|---|---|---|---|---|
| | 2000 | 2.99 | 2.99 | -0.58 |
| | 3000 | 2.99 | 2.99 | -0.58 |

| CONTRACT FORMULA | | EFFECT ON [illegible] |
|---|---|---|
| [illegible] | 20.00% | [illegible] |
| [illegible] | 80.00% | |
| USA | 0.00% | APR 15 TO |
| FOLEY504 | 2.50 | APR 19 |

| MARKETS | | |
|---|---|---|
| | ALBERTA PACKER | 58.93 |
| | [illegible] | 59.02 |
| | [illegible] | 60.02 |
| | USA | 70.47 |

ACTUAL PURCHASES WEEK OF APRIL 15 - 19,1985

| | | |
|---|---|---|
| TOTAL SALE (NUMBER OF HOGS) | | 40609 |
| CONTRACT SALE (8 WEEK AVERAGE) | | 33650 |
| AVERAGE WEIGHT PER HOG | 172 | 172 |
| ALTA PACKER PRICE | | 57.77 |
| TOTAL REVENUE | | 3903367 |
| AVERAGE REVENUE/HUNDRED 100 KGS | | 99.36 |

PROPOSED CONTRACT PURCHASE

| CONTRACT HOGS | |
|---|---|
| CONTRACT SALE | 30293 |
| AVERAGE ALBERTA CONTRACT PRICE | 57.98 |
| [illegible] REVENUE - CONTRACT HOGS | 3020451 |
| AVERAGE REVENUE/HUNDRED 100 KGS | 99.72 |
| RESIDUAL HOGS | |
| [illegible] REQUIRED TO FILL ALBERTA VOLUME | 3271 |
| DUTY | 5.30 |
| ALBERTA RESIDUAL PRICE - CONTRACT PRICE | 57.98 |
| [illegible] REVENUE ALBERTA RESIDUAL SALES | 325629 |
| US SALES | 4533 |
| US NET BACK PRICE | 58.17 |
| [illegible] REVENUE - US SALES | 391132 |
| AVERAGE REVENUE/HUNDRED 100 KGS (RESIDUALS) | 93.51 |
| TOTAL REVENUE - CONTRACT PLUS RESIDUAL | 3936907 |
| AVERAGE REVENUE - ALL HOGS | 98.30 |
| AVERAGE REVENUE INCREASE/HOG | |
| (CONTRACT+RESIDUAL)-ACTUAL | -1.16 |

ASSUME THE ALTA PURCHASE OF ADDITIONAL RESIDUALS

| AVE INCREASED REVENUE/HOG | 2000 | -0.09 |
|---|---|---|
| | 4000 | 0.10 |

FIGURE

FLETCHERS PROPOSAL FOR WEEK OF APR 15 TO APR 19 (100% OF EIGHT WEEK VOLUME ON CONTRACT, RESIDUALS AT NET-BACK PLUS $1.50)

| CONTRACT FORMULA | | EFFECT ON THE PLANTS: BANDED FLETCHERS BRITCH EXPORT APRIL 15 - APRIL 19 | | | |
|---|---|---|---|---|---|
| [illegible] | 60.00% | | | | |
| [illegible] | 40.00% | | | | |
| USA | 0.00% | | | | |
| BUDGETS | | | | | |
| ALBERTA PACKER | | $8.93 | $8.93 | $8.93 | $8.93 |
| [illegible] | | 59.02 | 59.02 | 59.02 | 59.02 |
| [illegible] | | 66.02 | 66.02 | 66.02 | 66.02 |
| USA | | 70.47 | 70.47 | 70.47 | 70.47 |
| ACTUAL PURCHASES WEEK OF APRIL 15 - 19,1985 | | | | | |
| TOTAL BUY (HOGS) OF (HOGS) | | 17202 | 14160 | 4254 | 4533 |
| CONTRACT BUY (8 WEEK AVERAGE) | | 16250 | 13900 | 3500 | |
| AVERAGE WEIGHT PER HOG | 172 | 172 | 172 | 172 | 172 |
| ALTA PACKER PRICE | | $8.93 | $8.93 | $7.33 | $6.17 |
| TOTAL COST | | 1793888 | 1429170 | 619477 | 391132 |
| AVERAGE COST/HOG (100 HOG | | 101.36 | 101.36 | 98.61 | 86.29 |
| PROPOSED CONTRACT PURCHASE | | | | | |
| CONTRACT HOGS | | | | | |
| CONTRACT BUY | | 16250 | 13900 | 3500 | |
| ALBERTA CONTRACT PRICE | | $8.90 | $8.90 | $8.90 | |
| PLANT COST - CONTRACT HOGS | | 1674205 | 1432009 | 360990 | |
| AVERAGE COST/HOG (100 HOG | | 103.03 | 103.03 | 103.03 | |
| RESIDUAL HOGS | | | | | |
| [illegible] REQUIRED TO FILL PLANT VOLUME | | 952 | 200 | 754 | |
| BUY | | $.30 | $.30 | $.30 | $.30 |
| ALBERTA RESIDUAL PRICE = US-15.00-BUY | | $6.67 | $6.67 | $6.67 | |
| ALBERTA PLANT COST | | 89680 | 17773 | 67005 | |
| US SALES | | | | | 4533 |
| US NET BACK PRICE | | | | | $8.17 |
| US SALES REVENUE | | | | | 391132 |
| AVERAGE COST/HOG (00 HOG | | 88.87 | 88.87 | 88.87 | 86.29 |
| TOTAL COST - CONTRACT PLUS RESIDUAL | | 1758888 | 1409862 | 427683 | 391132 |
| AVERAGE COST - ALL HOGS | | 102.29 | 102.03 | 100.52 | 86.29 |
| AVERAGE COST SAVINGS/HOG | | | | | |
| ACTUAL-(CONTRACT+RESIDUAL) | | -0.00 | -1.67 | -1.91 | |
| ASSUME THE PURCHASE OF ADDITIONAL RESIDUAL HOGS | | | | | |
| AVERAGE COST SAVINGS/HOG | 1000 | -0.15 | -0.50 | 0.31 | |
| | 2000 | 0.51 | 0.27 | 1.07 | |
| | 3000 | 1.10 | 0.90 | 2.91 | |
| | 4000 | 1.64 | 1.62 | 3.76 | |
| | 5000 | 2.13 | 2.19 | 4.46 | |

| CONTRACT FORMULA | | EFFECT ON BOARD | |
|---|---|---|---|
| [illegible] | 60.00% | BOARD | |
| [illegible] | 40.00% | | APR 15 TO APR 19 |
| USA | 0.00% | | |
| BUDGETS | | | |
| ALBERTA PACKER | | | $8.93 |
| [illegible] | | | 59.02 |
| [illegible] | | | 66.02 |
| USA | | | 70.47 |
| ACTUAL PURCHASES WEEK OF APRIL 15 - 19,1985 | | | |
| TOTAL SALE (HOGS) OF (HOGS) | | | 40809 |
| CONTRACT SALE (8 WEEK AVERAGE) | | | 33650 |
| AVERAGE WEIGHT PER HOG | 172 | | 172 |
| ALTA PACKER PRICE | | | $7.77 |
| TOTAL COST | | | 3983367 |
| AVERAGE REVENUE/(HOGS) (00 HOG | | | 99.36 |
| PROPOSED CONTRACT PURCHASE | | | |
| CONTRACT HOGS | | | |
| CONTRACT BUY | | | 33650 |
| ALBERTA CONTRACT PRICE | | | $8.90 |
| BOARD REVENUE - CONTRACT HOGS | | | 3466892 |
| AVERAGE REVENUE/(HOGS) (00 HOG | | | 103.03 |
| RESIDUAL HOGS | | | |
| [illegible] REQUIRED TO FILL ALBERTA VOLUME | | | 1986 |
| BUY | | | $.30 |
| ALBERTA RESIDUAL PRICE = US-15.00-BUY+1.50 | | | $6.67 |
| BOARD REVENUE ALBERTA RESIDUAL SALES | | | 1697378 |
| US SALES | | | 4533 |
| US NET BACK PRICE | | | $8.17 |
| BOARD REVENUE - US SALES | | | 391132 |
| AVERAGE REVENUE/(HOGS) (00 HOG | | | 97.05 |
| TOTAL REVENUE - CONTRACT PLUS RESIDUAL | | | 4027904 |
| AVERAGE REVENUE - ALL HOGS | | | 100.46 |
| AVERAGE REVENUE INCREASE/HOG (CONTRACT+RESIDUAL)-ACTUAL | | | 1.10 |
| ASSUME THE ALTA PURCHASE OF ADDITIONAL RESIDUALS | | | |
| AVERAGE COST SAVINGS/HOG | 3000 | | 1.23 |
| | 4000 | | 1.36 |
| | 5000 | | 1.48 |